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For action

Proposed modifications to the budget process

Summary

As per decision 2000/3 (E/ICEF/2000/8 (Part I)) on the multi-year funding framework, adopted by the Executive Board at its first regular session of 2000, the present report describes the constraints in the existing budget process and recommends that the biennial support budget be submitted to the first regular session of the first year of the biennium and that the Executive Director have the authority to manage the support management structure within the approved appropriation.

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* E/ICEF/2000/9.

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I. Introduction

1. The Executive Board, at its first regular session in 2000, approved the recommendations proposed in the report "Multi-year funding framework: securing adequate resources to achieve the medium-term plan priorities" (E/ICEF/2000/5). In its decision 2000/3 (E/ICEF/2000/8 (Part I)), the Executive Board "requests the Executive Director to submit the proposed modifications to the budget process (as described in paragraphs 39 and 57 of document E/ICEF/2000/5) to the Advisory Committee on Administrative and Budgetary Questions for its review and comments" for presentation to the annual session of the Executive Board in 2000.

2. Chapter II describes the current general reform environment and public sector budgeting. Chapter III describes reforms made in the UNICEF budget process since 1996 as part of the Management Excellence Programme. These changes, introducing results-based management, have brought the budgetary decision closer to the strategic planning process. To strengthen linkages between the priorities of the strategic medium-term plan, resources, budget and outcome, modifications must be made to further improve the budget process. Chapter IV describes the existing constraints and proposes recommendations. Chapter V indicates the decisions that need to be taken by the Executive Board.

II. General reform and public sector budgeting

3. Public sector budget and performance management have undergone significant reform in recent years. There is a professed consensus that a centralized model no longer suits the needs and conditions of public management. Reforms have been centred around accountability frameworks in which the Government entrusts spending agencies with flexibility in using resources in exchange for holding them responsible for results. Many personnel and financial restrictions on line items have been discarded, and a variety of administrative arrangements have been adopted to stimulate management improvements. Implanting a performance ethic, getting people to manage for results and transforming agencies into performance-driven producers of public services are major challenges in public sector management.

4. The reform goes hand-in-hand with changes in the budgeting process. In reviewing governmental reforms, some common features have emerged:

(a) Multi-year budget, strategic and operational plans;

(b) Top-down spending ceilings whereby total expenditure ceilings are set and then allocated to individual ministers;

(c) Devolution of authority;

(d) Relaxation of restrictions on inputs, including personnel management;

(e) Increased use of performance information.

III. Reforms in the UNICEF budget process since 1996

5. Traditional budgeting and planning before 1996 did not always create value (or, at best, only marginal). Value is defined not only in financial measures, i.e. generating the same efficacy/output at a lower cost or generating greater output at the same cost, but value also refers to intangible values such as knowledge management and innovation capacity. It can also take the form of relationship value with cooperating partners, either in enhancing the cooperation programme with Governments or in advocating to global partners the rights of children and women.

6. The reform in the UNICEF budget process since 1996 took the following form:

(a) Initiation of integrated budgeting based on the principle that programme plans drive the budget. Whenever new country programme plans are proposed, or existing programme plans are adjusted in the course of a mid-term review (MTR), a country programme management plan (CPMP) must be formulated to ensure that the management structure supports the country programme;

(b) At headquarters locations, office management plans (OMPs) are prepared biennially within the medium-term plan framework with budget proposals. An open forum is held biennially for presentation of the OMPs to all staff to improve transparency and enhance cross-divisional collaboration. Implementation of the OMPs is then reviewed annually to improve future actions;

(c) The budget review for country offices is decentralized to the regional level so that the decision is taken at the level closer to the implementation;

(d) A support budget ceiling is established for each region on the basis of the financial plan, and each region can manage the budget within that ceiling;

(e) The support budget allotments are given at the seven expenditure category levels[a] rather than at the detailed line-item level. Offices have flexibility in managing the budget at the category level;

(f) The biennial budget proposal is presented to the Executive Board in the format agreed upon in the "Harmonization of budgets: UNDP, UNFPA and UNICEF" (E/ICEF/1997/AB/L.3 and Add.1) to enable the Executive Board to focus on strategic decision-making.

7. The reform in the budget process since 1997 created more value for the organization, and indirectly for children and women. These have been described in the budget documents:

(a) The ratio of the support budget to total expenditure has been reduced. The support budget has been maintained at the same level for six years to enable more funds to go to the programmes;

(b) Within the limitation of the post pyramid[b] and total support budget, regions can respond to the countries' requirements through the decentralized budget process;

(c) The capacity of the organization in information technology has increased substantially. This created the necessary technological platform to enable the organization to manage knowledge and advocacy functions and support results-based performance reporting;

(d) Twenty-five countries that did not have a support budget now have one;

(e) Within the same budget levels, regional offices are able to perform their enhanced roles in oversight and programme support.

8. Experience from the last three years also pointed out constraints which prevent more value creation for the organization. These are described in chapter IV below.

IV. Constraints in the current budget process and recommendation

Timing of the budget submission to the Executive Board

9. The current timetable requires UNICEF to submit the biennial budget proposal to the second regular session of the Executive Board in September every other year for the following biennium. This means that the biennial budget proposal has to be finalized by the end of May to submit to the Advisory Committee on Administrative and Budgetary Questions in June. The current timetable of programme and budget preparation is provided in annex I. UNICEF is proposing to submit the biennial support budget to the first regular session in January starting in 2002.

10. Country notes are reviewed by the Executive Board in late January/early February. The comments of the Executive Board are then taken into consideration in completing the country programme process with the Government. The result of this dialogue/consultation, and further internal guidance via the medium-term strategic plan (MTSP), is the country programme recommendation (CPR) that is reviewed by the Executive Board at the second regular session in September. The CPR is typically finalized in May. It is only at this point that the country office is in a position to properly complete its CPMP and support budget.

11. Because of the May budget submission deadline, the CPMP and support budget have been completed several months before the country programme is finalized. The administration is convinced that changing the timing for the submission of the support budget will enable sufficient articulation and review of the CPMP, thereby creating more value for the organization. The current practice runs counter to the principle of the plan drives the budget. The experience in the last biennial budget exercise has shown that when the support budget is finalized before the country

[a] Seven expenditure category levels: posts; other staff costs; consultants; travel; operating expenses; furniture and equipment; and reimbursements.

[b] The post pyramid refers to the number of international and national Professional posts, and General Service posts, funded from the support budget where the international Professional posts are further broken down by grades.

programme, adjustments are more likely to be needed to meet the programme requirements.

12. Moreover, for the development of the next MTSP, the following were proposed in E/ICEF/2000/5:

(a) Clear consultative processes will be followed to achieve the best and most effective fit among global, regional and country priorities in the definition and pursuit of all goals, objectives and major areas of action (paragraph 31);

(b) Country offices will systematically assess the relevance of the MTSP global and subregional medium-term objectives in future country programme formulation processes (paragraph 36);

(c) Indicators will be adopted for progress and process monitoring and performance assessment against each medium-term objective in the MTSP (paragraph 34).

13. Since UNICEF follows an integrated programme and budget preparation and review process, these elements need to be included in the process. Although it would require more time investment for the preparation of the MTSP and the integrated budget in the beginning, the benefit will derive from:

(a) A more transparent linkage between resource and results within the long-term perspective;

(b) Less time spent in planning each year, and more time spent on implementation;

(c) The organization will have sufficient time to look into trade-offs, opportunities and risks.

14. After the discussion of the MTSP at the second regular session of 2001, UNICEF will also need to take time to reflect on the comments and guidance provided by the Executive Board in the budget and structure.

15. With the above in mind, UNICEF is proposing to submit the biennial support budget to the first regular session of 2002. This means that an interim support budget appropriation to cover the one-month support needs for January 2002 will need to be made in 2001. As shown in annex II, the revised timeline proposes to expand the time allotted in critical activities such as programme review preparation in country offices and the programme and budget review (PBR) at the regional level. With the revised timeline, the MTSP and CPR will drive the budget preparation process. All in all, UNICEF thinks that with this revised timeline, much will be gained and nothing will be lost.

Management flexibility

16. When UNICEF decentralized the PBR to the regional offices, a new procedure was put into place as indicated in paragraph 6 above. As a result of the decentralized budgetary decision, UNICEF has been able to respond to programme needs in a more timely manner. The discussion on resources is focused on activities, objectives, outputs and outcomes. Attention on input information is still required in all budget submissions and reviews. Special input indicators are established, such as the percentage of the support budget to the total budget and per capita operating costs for comparison between offices. As UNICEF moves further towards accountability by results, it is inevitable that some of the input restrictions, namely the post pyramid in the support budget, will need to be reviewed to see if these are roadblocks for programme managers to meet their accountabilities and achieve results.

17. To illustrate how the control on the post pyramid does not contribute to programme implementation, two situations are presented below:

(a) Countries preparing new CPRs and MTRs after the support budget has been approved;

(b) Emergency situations that will require new or expanded support structures, such as in the case of East Timor and Kosovo in 1999.

18. Under the present procedure, UNICEF is required to adhere to the post pyramid as presented in the biennial budget proposal, and this is built into instructions and procedures for all budget holders to follow. In the case of new CPRs, if additional support is required, in terms of an additional support budget post or an upward reclassification of a post, then, unless an offset is found, this cannot be put in place until the next biennium, i.e. only in the second year of the new country programme. That restriction creates a barrier to establish a proper staff structure and may slow down implementation of the new country programme in the first year.

19. In the case of a new emergency situation occurring after the support budget is approved, usually staff are assigned on a temporary basis. This does not

allow UNICEF to recruit personnel on a longer-term basis to carry out necessary support for the emergency programme where the reconstruction phase continues for a number of years.

20. In either case, although savings can be found in the approved budget appropriations, UNICEF cannot effectively and expediently put the necessary structure in place to support the programme due to the limitations on the post pyramid.

21. The cost of personnel is one of the many items of expenditure that heads of offices must manage within the limits of their single budgetary allotments. If there is an increment in the salary scales, managers must find other savings to absorb the costs. In some cases, if the office wants to give up a P-5 level post in the support budget to establish a P-2 level post and a national Professional post, although this would yield savings, it cannot be done since this would add a post to the post pyramid in the support budget.

22. UNICEF will continue to follow the format of the harmonized budget presentation as agreed with the United Nations Development Programme and the United Nations Population Fund. This format will provide information on financial input and the post pyramid. It is recommended that this information be used only for comparison purposes. In addition, UNICEF will not be bound by the different types of financial inputs, and specifically by the number of posts and grades, as long as the support budget expenditure is within the total budget appropriation lines. UNICEF will report to the Executive Board every year in the annual report of the Executive Director on any changes in the post pyramid. This added flexibility will greatly enhance the ability of UNICEF to respond to programme requirements in the most timely and effective manner.

V. Draft recommendation

23. The Executive Director *recommends* that the Executive Board approve the following draft recommendation:

The Executive Board

1. *Reiterates* the principle that the plan drives the budget and that the support budget should not be formulated before the programme has been sufficiently articulated through the development of the master plan of operations and the draft country programme recommendation (decision 1997/3 (E/ICEF/1997/12/Rev.1)), and *requests* UNICEF to submit the future biennial support budget at the first regular session of the first year of the biennium;

2. *Confirms* that within the approved support budget appropriations, the Executive Director has the authority to adjust the support management structure to meet programme and the medium-term strategic plan priorities. Any changes in the support structure in terms of the grading and number of posts will be reported in the annual report of the Executive Director to the Executive Board;

3. *Requests* UNICEF to prepare an interim budget allocation to cover the one-month support costs for January 2002 for presentation at the second regular session of the Executive Board in 2001.

Annex I

CURRENT TIMELINE OF COUNTRY PROGRAMME RECOMMENDATION AND BUDGET SUBMISSION TO THE EXECUTIVE BOARD

Steps	Activity	January	February	March	April	May	June	July	August	September	October	November	December	January
Current timetable for country programme recommendation/budget preparation														
A	Country notes reviewed by Executive Board													
B	Country offices reflect comments of Board into programme submissions													
C	Country offices complete country programme management plans and submit programme and budget submission to the regional programme and budget review													
D	Regional programme and budget review teams review the country submissions													
E	Regional directors submit budget to headquarters (budget finalized in country programme recommendations)													
F	Headquarters compiles regional results and submits global consolidation to the Executive Director and global programme and budget review team													
G	Country offices finalize country programme recommendation document for production													
H	Headquarters drafts budget document, submits it to Advisory Committee on Administrative and Budgetary Questions for review, and initiates final editing for translation and reproduction													
I	**Advisory Committee on Administrative and Budgetary Questions reviews budget document**													
J	Report of the Advisory Committee on Administrative and Budgetary Questions is submitted for final editing for translation and reproduction													
K	Report of the Advisory Committee on Administrative and Budgetary Questions is distributed to Executive Board members													
L	Informal briefing with Executive Board members on budget proposal													
M	Executive Board meets on the budget													

Problems in this timeline:

Step B: Only two weeks to rework comments on country notes into country programmes.

Step E and G: The integrated budget for country office is finalized in April two months before the country programme recommendation is finalized in June. This runs counter to the principle of the plan drives the budget.

With the new medium-term strategic plan, it is not possible to also reflect the medium-term strategic plan into the integrated budget in this timeline.

Annex II

PROPOSED TIMELINE OF BUDGET SUBMISSION TO THE EXECUTIVE BOARD

Steps	Activity	January	February	March	April	May	June	July	August	September	October	November	December	January
PROPOSED														
A	Country notes reviewed by Executive Board													
B	Country offices reflect comments of Board and draft medium-term strategic plan into programme submissions													
C	Country offices complete country programme management plans and submit programme and budget submissions to the regional programme and budget review													
D	Regional programme and budget review teams review the country submissions, taking into consideration the final draft of the medium term strategic plan and draft country programme recommendations													
E	Regional directors submit regional budget to headquarters													
F	Headquarters compiles regional results and submits global consolidation to the Executive Director and global programme and budget review team													
G	Country offices finalize country programme recommendation document for production													
New	**Executive Board reviews the medium-term strategic plan**													
New	UNICEF incorporates any comments of the Board on the medium-term strategic plan into budget discussions and calculations													
H	Headquarters drafts budget document, submits it to Advisory Committee on Administrative and Budgetary Questions for review, and initiates final editing for translation and reproduction													
I	**Advisory Committee on Administrative and Budgetary Questions reviews budget document**													
J	Report of the Advisory Committee on Administrative and Budgetary Questions is submitted for final editing for translation and reproduction													
K	Report of the Advisory Committee on Administrative and Budgetary Questions is distributed to Executive Board members													
L	Informal briefing with Executive Board members on budget proposal													
M	Executive Board meets on the budget													

Improvements in the revised timeline:

Step B : Country offices have more time to assess the relevance of the medium-term strategic plan targets.

Step E and G: Country offices will finalize the budget after the country programme recommendation is finalized in June.

New steps are added to ensure that Executive Board comments on the medium-term strategic plan are reflected in the budget submission.

These boxes indicate the expanded period.